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SUBJECT: MILLENNIUM CHALLENGE CORPORATION (MCC) INITIAL VISIT TO MALAWI

REF: 07 STATE 168510

LILONGWE 00000063 001.2 OF 004

¶11. (U) SUMMARY: A Millennium Challenge Corporation (MCC) team headed by VP John Hewko visited Malawi January 13-17 to initiate the compact development process following Malawi's selection as compact eligible in 2007 (reftel). The visit provided an opportunity to meet with a variety of stakeholders to explain the compact development process. The MCC team met with President Mutharika, GOM cabinet officials, Parliamentary leaders, the two main opposition leaders, and representatives from civil society, NGOs, academia, the private sector and the international donor community. MCC VP Hewko also gave interviews to a range of media. The visit achieved its key objectives, publicizing the compact process and emphasizing for all stakeholders the importance of broad-based engagement in the MCC consultative process. The GOM and the stakeholders in Malawi seemed to understand the message and appeared ready to move ahead, despite concerns that the process could become politicized as the country approaches national elections. Hewko discussed with each group the importance of managing expectations for timing of Compact signing, especially in light of May 09 presidential elections. The next step in the process is for the GOM to name a Point Of Contact (POC) in order to begin engaging with the MCC technical team. End summary.

¶12. (U) Millennium Challenge Corporation Vice President for Compact Development John Hewko, Director of Compact Development Jerry Dutkewych and Malawi Compact Development team member Valeria McFarren visited Malawi January 13-17. The visit, the first since Malawi was selected by MCC as a compact eligible country (reftel), provided an opportunity for MCC personnel to meet with a variety of stakeholders to explain the compact development process.

MEETING WITH THE PRESIDENT

¶13. (SBU) Despite some initial scheduling difficulties, the team ultimately held a warm and productive meeting with Malawian President Bingwa Mutharika. Mutharika, accompanied by Finance Minister Goodall Gondwe and Presidential Advisor Dr. Peter Mutharika (the President's brother), impressed the team with his knowledge of MCC processes and recognition of what needed to be done to successfully conclude a compact. The President discussed his efforts to rebuild the public sector and to bring growth to the country since taking office. Faulting international financial institutions for their emphasis on macroeconomic stability, he emphasized growth policies, but within a stable political environment with respect for human rights, rule of law, and free elections was also crucial. Mutharika countered opposition

claims that he has not upheld the rule of law by citing the number of anti-corruption cases brought by his government and emphasizing that there were no political prisoners or detainees under his administration. Mutharika was insistent that aid programs do not succeed without Malawian ownership, and characterized an eventual MCC compact as an excellent opportunity to craft a Malawian program to benefit the country. The president reviewed the six priorities within priorities⁸ of the Malawi Growth and Development Strategy (MGDS) and welcomed the flexibility of the MCC program to further the MGDS. Finance Minister Gondwe commented that Malawi was already well versed in consultative processes after using similar approaches to develop the MGDS and various poverty reduction strategy papers. The president agreed that he would keep politics and elections out of the MCC process, saying he wanted to get the machinery in place quickly so it could not be derailed.

BRIEFING THE CABINET

¶14. (U) Prior to the MCC visit, some strains within the GOM were already appearing, with the Ministry of Economic Planning and Development (which had had the lead on the MCC Threshold Program) expressing unhappiness with a lack of communication from the Ministry of Finance. The meeting with Cabinet ministers succeeded in conveying the need for the compact development process to be broad-based and inclusive. There was still some skepticism from some ministers about the feasibility and necessity of the consultation process described. Citing the MGDS, some felt that the GOM had already completed a review of its development needs. Another minister argued the success achieved in Malawi through its fertilizer subsidy program and asked why MCC could not be used to support such a program. Overall, however, the ministers seemed to understand the messages conveyed by Hewko and did not appear to be focused only on what MCC could do

LILONGWE 00000063 002.2 OF 004

for their ministry. We are told that a subsequent Cabinet meeting chaired by the President overwhelmingly endorsed the MCC approach.

OPPOSITION BASHERS GOM

¶15. (SBU) In his meeting with the MCC team, opposition Malawi Congress Party (MCP) leader John Tembo questioned why Malawi was selected for compact eligibility, stating that the MCP didn't believe the indicators. Tembo cited the lack of local government elections, the prorogation of parliament, the stalemate on the electoral commission, and the long-time absence of an Anti-Corruption Board (ACB) director as areas where the current government acted unlawfully. Regarding consultations, Tembo suggested that the village chief level was the most appropriate to get the broadest range of suggestions for programs but he advised avoiding the Traditional Authorities (T/As) since they were beholden to government due to their large raises this year. Tembo was pleased to hear that an independent entity would be used to implement any compact despite a government majority on the board. After hearing how the Gambia lost compact eligibility, the MCP was pleased that MCC could be used to hold the government's feet to the fire.⁸ Finally, Tembo suggested that agriculture, social services, education, health, and transport were the most likely sectors to focus an MCC compact. Despite being open to engage in the compact development process, he warned that the MCP remained unconvinced that the indicators were accurate, or that the process would really be broad-based, consultative, and apolitical with the current government in control.

¶16. (SBU) The MCC team also met with former President and leader of the opposition United Democratic Front (UDF) Baliki Muluzi and 10 other UDF members. In many respects the UDF meeting echoed the MCP meeting. Muluzi himself chose to stay

above the fray, but the other UDF leaders present attacked the MCC indicators with examples of the current government's shortcomings. They cited GOM failure to control corruption, maintain rule of law, provide good governance, adequate education, health care, or economic growth for the nation. The Ambassador told the UDF that he hoped the UDF could get behind the MCC project and realize the potential benefit to the poor. He also stressed the opportunity that MCC represented for Malawi - a grant with no strings attached that the nation itself could decide what to do with - and urged the UDF not to politicize it. Overall, the UDF appeared the least willing to engage cooperatively in the compact process. This meeting highlighted the likely difficulties in keeping the compact process apolitical, broadly consultative and quick. The Ambassador will continue this dialogue with Muluzi and the UDF in the coming weeks.

PARLIAMENT

¶7. (U) The meeting with parliamentary leaders was very well attended, with most of the committee chairs (all from the opposition) present. The members listened attentively to the MCC presentation and appeared eager to become engaged in the compact development process. They thanked the MCC for the helpful support the Parliament had received under the MCC Threshold Program, and asked that the support continue during the compact phase. The MCC team encouraged the group to request such support in their compact proposal. MPs focused on the need for Malawi's performance on indicators to remain satisfactory in order to access funding. VP Hewko explained that under most circumstances, countries were given an opportunity to address performance slippage before funding was suspended. In response to questioning, Hewko clarified that Malawi's performance on indicators was compared to other peer countries, not an absolute assessment. It would also be essential to maintain progress on the implementation of the MCC-funded projects themselves, he added. Opposition MPs suggested that opposition leaders participate in the board of Malawi's eventual compact implementing entity.

CIVIL SOCIETY AND THE PRIVATE SECTOR

¶8. (U) Similarly, the meetings with civil society and the private sector were well attended (despite some last minute schedule changes). Several participants expressed interest in providing input into the process. Private sector business leaders in particular appeared eager to highlight current constraints to investment in Malawi, such as costs of transportation and power.

LILONGWE 00000063 003.2 OF 004

ACADEMICS

¶9. (U) The MCC team met over lunch with a group of senior University of Malawi officials. The group included representatives from the economic, law, and political science faculties. The MCC team had a chance to engage some of the people who could prove to be valuable resources for Malawi in its compact development. Notably, Dr. Winford Masanjala, Head of the Economics Department, observed that all of the economists with advanced degrees in Malawi are in academia, not government, a statement that is not entirely true.

SMALL DINNERS WITH PROMINENT LEADERS

¶10. (U) The MCC team was able to meet in a more relaxed setting with prominent political, business and media leaders in a series of three dinners held during the visit. In addition to allowing the team to impress several influential figures in Malawi with the important points of the MCC process, these dinners also provided a unique opportunity for

the team to receive candid feedback about the political and economic dynamics in Malawi. Former vice-president Justin Malawesi recalled several past efforts to consult the general public on development priorities, including the UNDP-funded &Malawi Vision 20/208 exercise conducted in the mid-1990's. He urged that the MCC build on, rather than simply ignore, such past efforts. Hewko expressed the importance of de-politicizing the MCC process which includes the appointment of a full-time POC that transcends political parties, has the support of the government and works well with the private sector and civil society. In response, these leaders recommended a couple of POC candidates that fit this criteria.

MEDIA

¶11. (U) The Embassy Public Affairs Section developed a robust program to allow the MCC team to get their message to the media. Interviews were held with television, radio, and Malawi's two largest newspapers, and a press conference was also held, reaching a yet wider group of media outlets. The team's dinner with press editors provided another opportunity to stress the importance of accurate and unbiased reporting to the compact development process.

¶12. (U) The visit received very positive media coverage. Interviews with VP Hewko were carried as full page stories in leading newspapers as well as on Malawi's leading television news program.

DEVELOPMENT PROJECT VISIT

¶13. (U) The MCC team was able to make a site visit to a small scale development project in rural Malawi. This project, funded through USAID and PL-480, includes irrigation, micro-finance, health and nutrition, and institutional strengthening elements. The visit provided an impressive illustration of the potential grass roots impact that MCC assistance could bring.

MAIN THEMES

¶14. (U) Despite some scheduling difficulties, especially regarding the meeting with Mutharika, the MCC team was generally received very well. All sectors of society and government in Malawi seem eager to seize the opportunity represented by MCC. On the whole, the team achieved its objectives of informing Malawi's stakeholders how the compact development process will work, and in particular the need for broad-based consultations. Key contacts acknowledged the importance of selecting an able and respected individual to lead Malawi's compact development process.

¶15. (U) Overall the GOM and other stakeholders seemed to understand the MCC message, although not without reservations and exceptions in some quarters. There is clearly a danger of the process becoming politicized, especially with national elections scheduled for 2009. The UDF seemed particularly reluctant to engage in a spirit of cooperation. There was also concern that a possible change of government could interrupt compact negotiations.

¶16. (U) One recurring theme from several of the meetings was

LILONGWE 00000063 004.2 OF 004

a clear desire to streamline the consultation process. Several interlocutors noted that Malawi has engaged in multiple such processes in the past and suggested that it would be a duplication of effort to start over again from square one.

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